

# Effort to Rein In Fannie, Freddie Gains Steam

Treasury Puts Muscle Behind Bipartisan Push for Greater Oversight of Firms

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Treasury Department officials have stepped up efforts to strengthen the regulation of [Fannie Mae](#) and [Freddie Mac](#), the two largest buyers of home mortgages, pressing key senators to break a legislative stalemate that has lasted for years.

The recent turmoil in credit markets has refocused attention on Fannie Mae and Freddie Mac, which play a vital role in supporting the U.S. mortgage market. About 80 percent of all home loans are now bought by these two federally chartered companies, according to Freddie Mac.

At a closed-door meeting last week called by Treasury Secretary [Henry M. Paulson Jr.](#), senior department officials sat with the top two members of the Senate Banking Committee and the heads of both Fannie Mae and Freddie Mac to discuss how the federal government could beef up its oversight.

Although the session ended after 45 minutes without a substantive decision, government officials who attended said participants concurred that it was time to craft an agreement. In particular, the officials said the Banking Committee's ranking Republican, [Sen. Richard C. Shelby](#) (Ala.), who has adamantly insisted on stringent controls over the two companies, indicated a new willingness to compromise with Democrats seeking a more measured increase in regulation.

After the meeting last week, the Banking Committee scheduled a vote for May 6 to approve what is likely to be a tougher version of the legislation that the House has already been passed.

Lawmakers are increasingly upbeat about the prospects for tougher regulation. "The environment today -- unfortunately in many ways because of the housing crisis -- is more conducive to real reform that I've seen in eight years," said Sen. [Chuck Hagel](#) (R-Neb.), a member of the Banking Committee. "It's rare for the stars to be aligned in this way."

But the companies, seeking to preserve profits, are still resisting tighter regulations sought by lawmakers. For example, the companies' executives and Republican Senate leaders are at opposite ends of the spectrum over how closely the government should control the firms' portfolios and capital requirements. Lawmakers from both parties also disagree with the companies over the role the government should play in approving new types of investments and setting funding levels for low-income housing.

[President Bush](#) and Paulson made new legislation a high priority after the collapse of the subprime mortgage market early last year and the subsequent crisis in the credit markets. Administration officials wanted to ensure that Fannie and Freddie would be able to provide enough money to lenders so they could continue to make home loans. Treasury officials even helped craft a bill in the House to tighten federal supervision of Fannie Mae and Freddie Mac. That measure passed in May, but the Senate's version has been stalled in the Banking Committee.

Meeting in the office of Banking Committee Chairman Sen. Christopher J. Dodd (D-Conn.), senior officials from the Treasury, the Senate and the two companies discussed the prospects for moving the legislation forward, according to participants who declined to be identified because the meeting was private. The officials did not delve into the legislation's specifics. But everyone there committed to trying to devise a bill that could become law.

According to participants, they also discussed the sagging financial conditions of Fannie Mae and Freddie Mac, which are often called Government Sponsored Enterprises, or GSEs.

Shelby, whose view is considered key to success in the closely divided Senate, was "very much engaged in the meeting, more so than recently," said a government official who attended the meeting. The senator came ready to talk and started addressing the issues he wanted to resolve. He also said he wanted to meet again soon.

"The sheer fact that he would say something like that is a big deal," the official added.

Republican congressional staff members agreed that the [GOP](#) is open to compromise, but they warned that veering too close to the companies' position could prevent a compromise. "We're prepared to make a deal that we're not completely happy with," one senior GOP staff member said. "The question is, 'Can others do the same?' "

The measure to regulate Fannie Mae and Freddie Mac will probably be wrapped into a large, multifaceted bill to address the nation's housing crisis, according to congressional aides. [Barney Frank](#) (D-Mass.), chairman of the [House Financial Services Committee](#), said it is expected to include an overhaul of the [Federal Housing Administration](#), a new tax credit to help low-income housing and the creation of a fund to assist cities and states prevent home foreclosures -- along with the Fannie Mae and Freddie Mac legislation.

"Our nation needs a stronger regulatory structure and a deeper commitment to meeting the housing needs of the American people," Dodd said. "I am committed to continuing to find common ground to address this important issue in a bipartisan, timely and thoughtful way."

Shelby also has spoken optimistically. "It is my hope that [Senator Dodd](#) and I can continue to work closely on a number of those issues, such as the need for meaningful GSE reform," he said earlier this month on the Senate floor.

The two companies are regulated by the [Office of Federal Housing Enterprise Oversight](#). James B. Lockhart III, the agency's director, has called their reform essential. "Fannie Mae and Freddie Mac have become the dominant players in the mortgage market and are under increasing pressure to do more. It is critical at this time to have a stronger regulatory framework to maintain confidence in the GSEs and to restore stability and liquidity to the mortgage market," he said.

Past fights over efforts to boost regulation have been bare-knuckled affairs. Fannie Mae and Freddie Mac assembled two of the most expensive and formidable lobbying operations in Washington and were able to stop almost any attempt at regulation. "They really had this place locked down, and everybody was afraid of them," Hagel recalled.

But a few years ago, accounting scandals at both companies weakened their standing with lawmakers and the public. In addition, FM Policy Focus, an anti-Fannie-and-Freddie

lobbying coalition led by the companies' commercial competitors, grew in size and influence.

Recent declines in the housing market have again strengthened the hand of Fannie Mae and Freddie Mac, which argue that a broad crackdown would constrict their ability to finance mortgages. "Given today's challenging housing market, it's more important than ever to get legislation right," said Douglas Duvall, a spokesman for Freddie Mac.